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SUBJECT: GROWTH PLUMMETS IN ITALY'S CAMPANIA REGION

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Sensitive but unclassified - handle accordingly.

¶11. (SBU) Summary: A new report by Italy's central bank shows that the country's second-most populous region, Campania, has the lowest growth rate in Italy and the lowest rate of employment of any region in the EU. The region has experienced stagnant growth for about fifteen years, but the global recession has exacerbated the situation. The tourism industry, on which the region relies heavily for income, is experiencing its worst crisis in 23 years, with hotels virtually empty. According to an anti-Mafia prosecutor, the recession has been a windfall for organized crime; flush with cash, the local Camorra is the only alternative for businesses and individuals no longer able to obtain credit from banks. To speak of a recovery in a region that has seen a long and steady erosion of living standards is almost irrelevant; what is needed is a development plan that confronts the insidious environment of corruption, bad government, organized crime and long-neglected infrastructure.
End summary.

¶12. (U) Campania -- Italy's second-most populous region and home to Naples, the country's third-largest city -- has the lowest growth in the country, according to a new report by the country's central bank, Banca d'Italia. Campania also has the lowest rate of employment among people of working age of any region in the European Union. As noted in reftel, the economy in southern Italy had already suffered over a decade of economic malaise, but the worldwide recession has exacerbated the situation. In 2008, Campania's GDP fell by an estimated 1.6 to 2.8 percent (compared with 1 percent for the nation as a whole); Banca d'Italia projects the region's economy to contract at a higher rate than the rest of the country in 2009.

¶13. (U) The central bank's Director General presented its annual report on Campania's economy in Naples on June 15. Among the telling statistics:

-- In the industrial sector, output has fallen below the recession levels of 1992 and 1993, and sales are expected to fall by at least 3.5 percent in 2009.

-- The construction sector's output declined by 5.3 percent in 2008.

-- Exports from Campania decreased by 14 percent in the final quarter of 2008 and dropped 21.6 percent in the first two months of 2009 (compared with the same months in 2008). Imports fell by 0.4 percent in 2008.

-- Consumer spending in the region dropped by 1.7 percent in 2008, while prices rose by 4.3 percent (the second-highest rate of inflation in Italy).

-- The number of persons employed in Campania decreased by 2.2 percent in 2008. The construction sector was the hardest hit, with an employment decline of 8.8 percent, followed by the industrial sector with a drop of 3.8 percent. At 42.5 percent, the employment rate of working-age individuals in Campania is the lowest of all regions among the 27 members of the European Union. The official unemployment rate is 12.7 percent. The only segment of the economy that saw improvement in employment was retail, which grew by 4.5 percent in 2008. We note that according to EU statistics, Campania is tied with Sicily for the lowest rate of female employment (28 percent) in the European Union (Campania's neighboring region, Apulia, has the lowest).

-- Campania's average household income is far less than the national average, and statistics show it to have the country's least equitable income distribution. Some 21.3 percent of

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families live below the poverty line in Campania, compared with a national average of 11.1 percent.

¶4. (U) The availability of credit has also shrunk. Bank lending to businesses decreased by 2.4 percent in 2008, and banks have also tightened loan criteria. The cost of lending in Campania has increased relative to the national average, from an average cost of 1.25 percent more to 1.42 percent. According to a Banca d'Italia survey conducted in October 2008, 38 percent of businesses in south said they face increasing debt. Lending to households has also fallen.

¶5. (U) As host to major attractions such as Pompeii, Capri, Ischia and the Amalfi Coast, Campania has traditionally relied heavily on tourism for income (ref B). Although the bank's report did not single out this sector, other sources report that it has been among the hardest hit by the global crisis. The number of visitors to Naples dropped by 12 percent in May 2009 compared to the previous year (May is traditionally one of the city's busiest months for tourism). The number of visits to Capri is down 43 percent for the first five months of 2009 compared to last year. These figures represent the biggest decline in the tourism sector since 1986. Constanzo Iannotti Pecci, who follows tourism for the Campania Industrialists Federation, told us in mid-June that hotels in the region are "practically empty." Despite the recession, the cruise ship business in Campania grew by 7.4 percent in 2008. Few cruise ship visitors spend a significant amount of time or money in the region, though.

¶ 6. (U) Several of the speakers at the presentation of Banca d'Italia's report openly blamed local and national politicians for the disastrous state of the economy. Several complained that the dilapidated infrastructure, poor education and corruption have contributed to Campania's downward spiral. A professor emeritus of philosophy and former politician added that cultural factors and the prevalence of organized crime have also played major roles.

¶ 7. (SBU) Perhaps the only business that is profiting in Campania these days is the Camorra, the local Mafia. Naples anti-Mafia prosecutor Rosario Cantelmo told us June 18 that Camorra clans are flush with cash, and have expanded loan sharking as people are unable to obtain credit from banks. He added that the drug trade (controlled by organized crime) continues to be a growth industry in Naples, despite the recession. Cantelmo believes that the Camorra is allowing many local businesses to make lower extortion payments, but that the mob has actually increased the total number of victims, hitting up even the smallest of entrepreneurs.

¶ 8. (SBU) Comment: While northern and central Italy hope for economic "recovery," this word would hardly seem apt to Campania residents who have seen a steady erosion of their quality of life over the last fifteen years. In fact, the region's economy grew by only one percent this decade before the 2008 global financial crisis. A visitor to Naples could easily think he had accidentally taken the wrong flight and landed in the Third World, given the city's crumbling infrastructure and chaotic conditions. Few investors, either foreign or domestic, come to open businesses in the region. The obstacles -- bad government, pervasive organized crime, poor transportation connections, roads marked by potholes, an overburdened legal system -- are seen as insurmountable. Campania is one of the EU's poorest regions, and only the political will to take on corruption, inefficiency and organized crime will help its residents climb out of the vicious cycle of poverty.

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